Michigan Dept. of Treasury
496 (2-04)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type:	Local Government Name:	County
☐ City ☐ Township ☐ Village ☒ Other	West Shore Medical Center	Manistee

Audit Date	Opinion Date	Date Accountant Report Submitted To State:
June 30, 2005	September 15, 2005	November 18, 2005

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])

☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	☒	☐	☐
Reports on individual federal assistance programs (program audits).	☐	☐	☒
Single Audit Reports (ASLGU).	☐	☐	☒

Certified Public Accountant (Firm Name):	**PLANTE & MORAN, PLLC**		
Street Address 1111 Michigan Avenue	City East Lansing	State Michigan	ZIP 48823
Accountant Signature Plante & Moran, PLLC		Date November 18, 2005	

West Shore Medical Center

Financial Report

June 30, 2005

West Shore Medical Center

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plante moran

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Independent Auditor's Report

To the Board of Trustees
West Shore Medical Center

We have audited the accompanying balance sheet of West Shore Medical Center (the "Center") (a component unit of Manistee County) as of June 30, 2005 and 2004 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Shore Medical Center as of June 30, 2005 and 2004 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is presented for the purpose of additional analysis and is not a required part of the financial statements of West Shore Medical Center, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and, accordingly, do not express an opinion thereon.

Plante & Moran, PLLC

September 15, 2005

This discussion and analysis of West Shore Medical Center's (the "Center") financial statements provides an overview of financial activities for the year ended June 30, 2005. Management is responsible for the completeness and fairness of the financial statements, the related footnote disclosures, and this discussion and analysis.

Using this Annual Report

The Center's financial statements consist of three statements - a balance sheet; a statement of revenue, expenses, and changes in net assets; and a statement of cash flows. These financial statements and related notes provide information about the activities of the Center, including resources held by the Center but restricted for specific purposes by contributors, grantors, or enabling legislation.

Financial Overview

The Center's overall financial condition continued to improve during the year ended June 30, 2005 (fiscal year 2005) as net assets increased $1.27 million, from $27.48 million to $28.75 million (4.6 percent increase). The increase in net assets remained consistent with fiscal year 2004, when net assets increased $1.34 million or 5.1 percent. Total cash and investments, including those limited as to use, increased from $15.9 million to $18.5 million (16.4 percent increase) as the Center began to accumulate funds to make additional facility improvements and technological enhancements.

Investments in capital assets totaled $1.9 million and $2.6 million in fiscal years 2005 and 2004, respectively. No additional debt was required in 2005 or 2004 for the financing of these capital assets.

As mentioned, net assets increased by $1.27 million and $1.34 million in fiscal years 2005 and 2004, respectively, and were generated from the following sources (in thousands):

	Year Ended June 30	
	2005	2004
Income from operations	$ 984	$ 1,315
Nonoperating income (loss)	206	(36)
Contributions restricted for capital assets	80	59
Increase in Net Assets	**$ 1,270**	**$ 1,338**

Net assets by donor classification for the fiscal years 2005 and 2004, were as follows (in thousands):

	Year Ended June 30	
	2005	2004
Invested in capital asset - Net of related debt	$ 9,861	$ 10,600
Restricted for capital asset expenditures	45	165
Unrestricted	18,841	16,712
Total net assets	**$ 28,747**	**$ 27,477**

Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets

The balance sheet and the statement of revenues, expenses, and changes in net assets report information on the Center as a whole and on its activities in a manner that helps present changes in its overall financial condition and operating performance.

These two statements taken together report the Center's net assets and changes thereto from year to year, thus reflecting the financial health of the Center. Many other factors should also be considered such as trends in patient days, outpatient visits, reimbursement levels, conditions of facilities, and strength of medical staff to assess the overall health of the Center.

The statements include all assets and liabilities using the accrual basis of accounting. Revenue and expenses are recognized and accounted for regardless of when cash is received or paid.

Condensed Financial Information

The following is a comparative analysis of the major components of the balance sheet for fiscal years 2005 and 2004 (in thousands):

	Year Ended June 30		Change	
	2005	2004	Amount	Percent
Current assets	$ 22,217	$ 17,232	$ 4,985	28.9
Noncurrent assets	2,134	4,376	(2,242)	(51.2)
Capital assets	20,796	21,940	(1,144)	(5.2)
Total assets	**$ 45,147**	**$ 43,548**	**$ 1,599**	**3.7**
Current liabilities	$ 5,890	$ 5,136	$ 754	14.7
Long-term liabilities	10,510	10,935	(425)	(3.9)
Total liabilities	**$ 16,400**	**$ 16,071**	**$ 329**	**2.0**
Invested in capital assets - Net of debt	$ 9,861	$ 10,600	$ (739)	(7.0)
Restricted assets	45	165	(120)	(72.7)
Unrestricted	18,841	16,712	2,129	12.7
Total net assets	**$ 28,747**	**$ 27,477**	**$ 1,270**	**4.6**

Significant balance sheet changes include an increase in patient receivables and investment of cash and cash equivalents in long-term government agency securities. Liabilities increased principally as a result of an increase in Medicare and Medicaid cost reports settlements payable. Net assets increased due to positive operating results.

Operating Results for the Year

A comparative summary of operating results for the years ended June 30, 2005 and 2004 is as follows (in thousands):

	Year Ended June 30		Change	
	2005	2004	Amount	Percent
Operating Revenue				
Net patient service revenue	$ 33,289	$ 31,354	$ 1,935	6.2
Other	787	649	138	21.3
Total operating revenue	34,076	32,003	2,073	6.5
Operating Expenses				
Salaries	13,467	12,427	1,040	8.4
Benefits	4,720	4,719	1	0.0
Supplies	4,144	3,711	433	11.7
Outside services	4,353	4,809	(456)	(9.5)
Depreciation	2,860	2,592	268	10.3
Other	3,548	2,430	1,118	46.0
Total operating expenses	33,092	30,688	2,404	7.8
Income from Operations	984	1,315	(331)	
Nonoperating Income (Expense) - Net	206	(36)	242	
Excess of Revenue Over Expenses - Before restricted contributions	1,190	1,279	(89)	
Restricted Contributions	80	59	21	
Increase in Net Assets	1,270	1,338	**$ (68)**	
Net Assets - Beginning of year	27,477	26,139		
Net Assets - End of year	**$ 28,747**	**$ 27,477**		

Operating Revenue

Operating revenue includes all transactions from health care and related service activity such as inpatient stays, outpatient visits, and physician office rentals. In addition, certain state and private grants are operating in nature if they are not for capital purposes.

Operating revenue changes were a result of the following factors:

- Gross charges for patient services grew 19.0 percent from $51.6 million in fiscal year 2004 to $61.4 million in fiscal year 2005, due to general price increases averaging 13 percent and an increase in weighted outpatient activity of 9.1 percent.

- After accounting for adjustments and discounts under third-party payor programs, primarily Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan, and providing for uncollectible accounts (bad debts), the Center realized an increase in net patient revenue of 6.1 percent, from $31.4 million in fiscal year 2004 to $33.3 million in fiscal year 2005.

- Deductions from revenue for third-party discounts and bad debts represented 45.8 percent and 39.2 percent of gross charges in fiscal years 2005 and 2004, respectively.

- Other operating revenue increased 18 percent from $649,000 in fiscal year 2004 to $787,000 in fiscal year 2005 due to increased rentals and increased membership at the Center's health and fitness center.

Gross patient charges and other income, as a percent of total for 2005 and 2004, were as follows:

	Percent	
	2005	2004
Inpatient	33	35
Outpatient	66	64
Other	1	1
Total	**100**	**100**

Operating Expenses

Operating expenses are all costs necessary to provide health care services. Significant changes in operating expenses in fiscal year 2005 were as follows:

- Salaries increased $1,040,000 or 8.4 percent due to annual cost-of-living and market adjustments and to additional clinical staffing requirements resulting from continuing service growth.

- Benefit costs remained constant at $4,720,000 in 2005 due to stable health care premium.

- Supplies increased $434,000 or 11.7 percent in 2005 due primarily to a nonrecurring accounting adjustment for operating room inventories in 2004.

- Outside services decreased $456,000 or 9.5 percent due to less contract labor.

- Depreciation and amortization increased $268,000 or 10.3 percent due to routine capital acquisitions and a change in accounting for salvage values in 2005.

- Other operating expense increased $1,117,000 or 46 percent due to the higher physician recruitment and practice support payments, equipment rentals, and insurance costs.

Operating expenses as a percent of total incurred in fiscal years 2005 and 2004 were as follows:

	2005	2004
Salaries	40.7	40.5
Benefits	14.3	15.4
Supplies	12.5	12.1
Outside services	13.2	15.7
Depreciation	8.6	8.4
Other	10.7	7.9
Total	**100**	**100**

Nonoperating Revenues - Net of Expenses

Nonoperating revenues are from other sources and for certain uses that are not primary to the Center's operating activity, consisting primarily of investment earnings (including realized and unrealized gains and losses), offset by interest expense.

Nonoperating revenue, net of related expenses increased from $(36,000) to $206,000 in fiscal year 2005, due primarily to realized and unrealized gains on certain investments.

Contributions Restricted for Capital Assets

Contributions restricted for capital assets relate primarily to gifts pledged or received in support of certain equipment needs.

Statement of Cash Flows

The primary purpose of the statement of cash flows is to provide relevant information about the Center's sources and uses of cash. The statement of cash flows also helps assess:

- The Center's ability to generate future positive cash flows
- Its ability to meet obligations as they come due
- Its ability to invest in capital assets for long-term growth and viability

	2005	2004	Increase (Decrease)
Cash provided by (used in) (in thousands):			
Operating activities	$ 4,609	$ 683	$ 3,926
Capital and related financing activities - Net	(2,306)	(3,121)	815
Noncapital financing activities	20	28	(8)
Investing activities	(1,219)	1,955	(3,174)
Net Increase (Decrease) in Cash	1,104	(455)	**$ 1,559**
Cash - Beginning of year	855	1,310	
Cash - End of year	**$ 1,959**	**$ 855**	

Cash provided by operating activities in 2005 increased $3.9 million from the prior year due primarily to increased collections from patients and third-party payors and to certain cost report settlement payments totaling $735,000.

Capital and related financing activities decreased from $3.1 million to $2.4 million in fiscal year 2005. Expenditures for property and equipment totaled $1.9 million in 2005 and $2.6 million in 2004.

Investing activities reflect the Center's strategy to invest available operating funds in longer duration, higher yielding government-backed securities. The net increase in investments totaled $1.6 million in 2004 and $1.4 million in 2005.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2005, the Center's capital assets totaled $20.8 million, net of accumulated depreciation of $21.2 million. The Center's capital position represents an average age of 7.5 years in 2005, compared with 7.2 years in 2004.

Debt

In April 2001, the Center incurred long-term debt totaling $12.1 million to support a facility expansion and modernization program. Debt outstanding at June 2005 totaled $10.9 million, of which $425,000 was short-term in nature, consisted of adjustable rate (2.38 percent at June 30, 2005), tax-exempt revenue bonds, and secured by an irrevocable direct-pay letter of credit.

In November 2002, the Center entered into an interest rate swap agreement to reduce interest rate risk on a beginning notational amount of $6.0 million, decreasing to $5.0 million by the end of the five-year agreement.

Refer to Notes 7 and 8 to the financial statements for additional information relating to debt and the interest rate swap agreement.

Economic Factors That Will Affect the Future

Although the Center generated revenues in excess of expenses from operations, like other hospitals it continues to be challenged in an environment where reimbursement gains from third-party payors are not keeping pace with primary cost drivers, such as wages, health insurance, and contract labor. Management continues to be concerned with our associate health professional liability insurances and energy costs.

In recent years, net revenue from growth in outpatient activity has not been adequate to offset the impact of decreasing inpatient admissions. As reflected in the Center's 2005 financial results, operating margins decreased from 4.1 percent to 2.9 percent in spite of a year with consistent inpatient activity and a substantial increase (9.1 percent) in outpatient services. Management believes the Center's future success will be driven by its ability to recruit physicians to grow health services and to access capital to fund facility expansion and technological enhancements.

The Center is continuing its aggressive physician recruitment initiative. This initiative will require significant investment in physician practice start-up activities and office facilities. By helping to create a larger network of physicians, the Center will enhance local access to quality care and be better positioned to meet the growing healthcare needs of communities served. In addition, management is planning for hospital facility and technological enhancements beginning in the summer of 2006. These improvements are expected to improve patient safety and clinical outcomes and to provide a more healing experience.

Contacting the Center's Management

This financial report is intended to provide interested parties with a general overview of the Center's financial position and performance. The Center has achieved a strong financial position during difficult economic times for the health services industry in the state of Michigan. Management believes the Center is well positioned not only to provide but enhance health care services for communities served for years to come.

If you have any questions about this report or need additional information, please contact the Vice President of Finance.

Donn Lemmer
Vice President, Finance
231.398.1188

West Shore Medical Center

Balance Sheet

	June 30	
	2005	2004
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	$ 1,566,190	$ 393,996
Investments and assets limited as to use (Notes 2 and 5)	15,173,952	11,359,202
Accounts receivable (Note 3)	3,786,351	3,488,051
Inventories	1,107,430	1,062,228
Prepaid expenses	583,082	528,221
Cost report settlements receivable (Note 4)	-	400,000
Total current assets	22,217,005	17,231,698
Investments and Assets Limited as to Use (Notes 2 and 5)	1,771,709	4,177,561
Capital Assets - Net (Note 6)	20,795,765	21,940,386
Other Assets	362,397	198,800
Total assets	**$ 45,146,876**	**$ 43,548,445**
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 7)	$ 425,000	$ 405,000
Accounts payable	1,808,677	1,680,760
Accrued liabilities (Note 9)	3,076,654	2,804,468
Cost report settlements payable (Note 4)	579,595	246,002
Total current liabilities	5,889,926	5,136,230
Long-term Debt (Note 7)	10,510,000	10,935,000
Total liabilities	16,399,926	16,071,230
Net Assets		
Invested in capital assets net of related debt	9,860,765	10,600,386
Restricted for capital asset expenditures	44,817	165,205
Unrestricted	18,841,368	16,711,624
Total net assets	28,746,950	27,477,215
Total liabilities and net assets	**$ 45,146,876**	**$ 43,548,445**

See Notes to Financial Statements.

West Shore Medical Center

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2005	2004
Operating Revenue		
Net patient service revenue (Note 13)	$ 33,289,209	$ 31,354,299
Other operating revenue	787,230	649,083
Total operating revenue	34,076,439	32,003,382
Operating Expenses		
Salaries	13,467,586	12,427,235
Benefits	4,719,975	4,719,187
Supplies	4,144,212	3,710,668
Professional fees and outside services	4,352,866	4,809,113
Depreciation and amortization	2,860,232	2,592,021
Other	3,547,623	2,430,276
Total operating expenses	33,092,494	30,688,500
Income from Operations	983,945	1,314,882
Nonoperating Income (Expenses) - Net (Note 14)	206,178	(36,285)
Excess of Revenue Over Expenses Before Contributions Restricted for Capital Assets	1,190,123	1,278,597
Contributions Restricted for Capital Assets	79,612	59,441
Increase in Net Assets	1,269,735	1,338,038
Net Assets - Beginning of year	27,477,215	26,139,177
Net Assets - End of year	**$ 28,746,950**	**$ 27,477,215**

See Notes to Financial Statements.

West Shore Medical Center

Statement of Cash Flows

	Year Ended June 30	
	2005	2004
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	$ 33,724,502	$ 28,614,957
Other receipts and payments	696,792	692,341
Cash paid to suppliers and employees	(29,812,222)	(28,624,748)
Net cash provided by operating activities	4,609,072	682,550
Cash Flows from Capital and Related Financing Activities		
Purchase of property and equipment	(1,699,344)	(2,455,453)
Restricted contributions received for capital assets	79,612	59,441
Cash received from sale of property and equipment	-	19,240
Principal paid on long-term debt	(405,000)	(385,000)
Interest paid on long-term debt	(280,760)	(239,695)
Net cash used in capital and related financing activities	(2,305,492)	(3,001,467)
Cash Flows from Noncapital Financing Activities		
Noncapital contributions	20,572	50,100
Net payments made on scholarship loans	(347)	(21,759)
Net cash provided by noncapital financing activities	20,225	28,341
Cash Flows from Investing Activities		
Purchase of investments	(3,167,087)	(6,408,729)
Interest received on investments	454,059	368,931
Proceeds from sale of investments	1,703,540	7,995,128
Other investing	(209,426)	(120,000)
Net cash provided by (used in) investing activities	(1,218,914)	1,835,330
Net Increase (Decrease) in Cash and Cash Equivalents	1,104,891	(455,246)
Cash and Cash Equivalents - Beginning of year	854,548	1,309,794
Cash and Cash Equivalents - End of year	**$ 1,959,439**	**$ 854,548**

See Notes to Financial Statements.

West Shore Medical Center

Statement of Cash Flows (Continued)

	Year Ended June 30	
	2005	2004
Balance Sheet Classification of Cash		
General Fund - Cash and cash equivalents	$ 1,566,190	$ 393,996
Restricted funds - Cash and cash equivalents	42,617	127,448
Assets limited as to use - Cash and cash equivalents	350,632	333,104
Total	**$ 1,959,439**	**$ 854,548**
Reconciliation of Income from Operations to Net Cash from Operating Activities		
Income from operations	$ 983,945	$1,314,882
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	2,814,403	2,592,021
Amortization	45,829	49,561
(Gain) loss on sale of assets	(90,438)	43,258
Provision for bad debts	1,563,015	1,116,621
(Increase) decrease in assets:		
Accounts receivable	(1,861,315)	(2,513,938)
Inventories	(45,202)	(361,600)
Prepaid expenses	(54,861)	(14,472)
Cost report settlements receivable	400,000	(200,030)
Increase (decrease) in liabilities:		
Accounts payable	247,917	(157,269)
Accrued liabilities	272,186	(44,489)
Cost report settlements payable	333,593	(1,141,995)
Net cash provided by operating activities	**$ 4,609,072**	**$ 682,550**

There were no noncash capital and related financing activities, noncapital financing activities, and investing activities during 2005 and 2004.

Note 1 - Nature of Business and Significant Accounting Policies

Reporting Entity - West Shore Medical Center (the "Center") operates as a short-term, acute-care facility offering inpatient and outpatient health care services primarily to citizens of northwest Michigan. A significant portion of the Center's net patient service revenue is receivable under contractual arrangements with Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs. The Center is organized under Public Act 230 of the Public Acts of 1987.

The Center is a component unit of Manistee County and is governed by its own board of trustees, who are appointed by the County of Manistee, and functions as a separate and distinct corporate body from the County. The Center is not empowered to create, in any fashion, debt or liabilities on behalf of the County or to pledge the full faith and credit of the County.

The West Shore Healthcare Foundation (the "Foundation"), which is controlled by West Shore Medical Center, was established to solicit contributions from the general public solely for the funding of capital asset acquisitions by the Center. Funds are distributed to the Center as determined by the Foundation's board of trustees. The assets and activities of the Foundation, which are not material, are included with the Center's financial statements.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Basis of Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* issued in June 1999. The Center follows the "business-type" activities reporting requirements of GASB Statement No. 34 that provides a comprehensive look at the Center's financial activities. No component units are required to be reported in the Center's financial statements.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Enterprise Fund Accounting - The Center uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents - The Center considers all liquid investments purchased with an original maturity date of three months or less to be cash and cash equivalents.

Accounts Receivable - Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Center's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

Investments - Investments are stated at fair market value. Investment income or loss, including realized and unrealized gains and losses on investments, interest, and dividends, is included in nonoperating income unless the income or loss is restricted by donor or law.

Inventories - Inventories are stated at the lower of cost, determined by the first-in, first-out method or market. Inventoriable items include dietary, pharmacy, laboratory, surgical, and patient billable supplies.

Capital Assets - Capital asset acquisitions consisting of property and equipment are recorded at cost. Donations of capital assets are stated at fair market value at date of donation. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Contributions - The Center routinely receives contributions from individuals and private organizations. Revenues from these sources (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Contributions restricted for operating purposes are reported as nonoperating income. Contributions restricted for capital acquisitions are reported after nonoperating income.

Net Assets - Net assets of the Center are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Center, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note 5. Unrestricted net assets are the remaining net assets that do not meet the definition of net assets invested in capital assets net of related debt or restricted net assets.

Operating Revenue and Expenses - The Center's statement of revenue, expenses, and changes in net assets distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from transactions associated with providing health care services - the Center's principal activity. Nonoperating revenue, including investment income, contributions received for purposes other than capital asset acquisition, and interest expense, are reported as nonoperating income. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net Patient Service Revenue - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined (see Note 4).

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation, and management believes it is in compliance with these laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Pension Plans - The Center has four noncontributory, trustee-defined contribution pension plans covering substantially all employees. The Center's policy is to fund pension cost as participants qualify for contributions (see Note 10). The Center also offers a deferred compensation plan under Section 457 of the Internal Revenue Code to employees who wish to participate.

Professional Liability Insurance - The Center accrues the estimated ultimate expense, including litigation and settlement expense, for the reported incidents of alleged medical malpractice occurring during the year, as well as the estimated cost of those claims that have not been reported to the insurance carrier at year end (see Note 11).

Charity Care - The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as operating revenue. Charity care for the years ended June 30, 2005 and 2004 totaled approximately $14,000 and $63,000, respectively.

Tax Status - The Center is a municipal health facilities organization under Public Act 230 of State of Michigan law and is tax exempt under the Internal Revenue Code. Accordingly, no tax provision is reflected in the financial statements.

Note 2 - Deposits and Investments

The Center's investment policy authorizes the Center to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan.

The Center designated National City Bank of Michigan/Illinois for the deposit of its funds.

The Center's cash and investments are subject to several types of risk, which are examined in more detail below:

Note 2 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Center's deposits may not be returned to it. The Center does not have a deposit policy for custodial credit risk of bank deposits. At June 30, 2005, the Center's deposit balance of $2,222,095 had $1,979,478 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Center believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Center evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Center's investment policy does not restrict investment maturities. The Center's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and limiting the average maturities in accordance with the Center's cash requirements.

At June 30, 2005, the average maturities of investments are as follows:

Investment Type	Fair Value	Weight Average Maturity (Years)
U.S. agencies and pass-throughs	$ 5,718,548	0.67
Variable rate demand notes	681,693	20.41
Mutual funds	8,509,113	-
Money market funds	1,574,518	-
Total fair value	$ 16,483,872	
Portfolio weighted average maturity		2.76

Credit Risk - Credit risk is the risk that an insurer to an investment will not fulfill its obligations. In accordance with the Center's investment policy, the Center may invest in U.S. government securities, corporate bonds, certain equity securities, collateralized mortgage obligations, asset-backed securities, and certain mutual funds.

Note 2 - Deposits and Investments (Continued)

At June 30, 2005, the credit quality ratings of investment type are as follows:

Rating	Fair Value
U.S. agencies and pass-throughs - Aaa	$ 5,718,548
Variable rate demand notes - Aa2	681,693

The rating organization used by the Center to rate its investments is Moody's.

Concentration of Credit Risk - The Center places no limit on the amount the Center may invest in any one issuer. Investments that individually exceed 5 percent of the Center's total investments at June 30, 2005 are as follows:

Investment	Fair Value
Franklin U.S. Government Fund A - Mutual fund	$ 2,393,034
Franklin Adjustable U.S. Government Fund A - Mutual fund	2,349,570
Allegiant Government Mortgage Fund I - Mutual fund	3,766,509
Allegiant Government Money Market Fund	1,528,674

Note 3 - Accounts Receivable

The details of accounts receivable are presented below:

	2005	2004
Patient accounts receivable	$ 8,597,763	$ 7,158,506
Less:		
Allowance for uncollectible accounts	(623,335)	(543,888)
Allowance for contractual adjustments	(4,434,553)	(3,384,785)
Total patient accounts receivable	3,539,875	3,229,833
Other	246,476	258,218
Total accounts receivable	$ 3,786,351	$ 3,488,051

Note 3 - Accounts Receivable (Continued)

The Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The composition of accounts receivable from patients and third-party payors is as follows:

	Percent	
	2005	2004
Medicare	35	29
Medicaid	10	14
Blue Cross/Blue Shield of Michigan	18	20
Commercial insurance	19	21
Patients	18	16
Total	100	100

Note 4 - Cost Report Settlements

The Center has agreements with these payors that provide for reimbursement to the Center at amounts different from its established rates. A summary of the basis of reimbursement is as follows:

- **Medicare** - Inpatient, acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Most outpatient services, including ambulatory surgery, outpatient radiology, and other diagnostic related services, are reimbursed on a prospectively determined ambulatory payment classification system. Physical therapy and outpatient laboratory services are reimbursed on a fee-for-service methodology.

- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Inpatient capital costs relating to Medicaid patients are paid on a cost-reimbursement method. Outpatient services are reimbursed on an established fee-for-service methodology.

- **Blue Cross/Blue Shield of Michigan** - All services rendered to Blue Cross/ Blue Shield of Michigan subscribers are reimbursed based on a percentage of Center charges.

Note 4 - Cost Report Settlements (Continued)

Cost report settlements receivable and payable result from the adjustment of interim payments to final reimbursement under these programs, and is subject to audit by each responsible intermediary. These audits may result in changes to these estimated cost report settlement balances and will be adjusted in future periods as final settlements are determined. Final cost report settlements increased net patient service revenue by approximately $650,000 and $750,000 for the years ended June 30, 2005 and 2004, respectively, reflecting settlements received for prior years in excess of previously estimated amounts.

Note 5 - Investments and Assets Limited as to Use

The details of investments and assets limited as to use for the years ended June 30, 2005 and 2004 are detailed below. The composition of investments is detailed in Note 2.

	2005	2004
Assets limited as to use:		
Designated by board for:		
Payment of potential professional liability claims municipal investment fund - Cash and cash equivalents	$ 169,443	$ 169,430
Endowments - Cash and cash equivalents	67,927	58,918
Scholarship loans	56,340	55,993
Other - Cash and cash equivalents	113,262	104,756
Restricted by Foundation for:		
Equipment - Cash and cash equivalents	42,617	127,448
Building improvements - Contributions receivable	2,000	37,557
Other	200	200
Total restricted by Foundation	44,817	165,205
Total assets limited as to use	451,789	554,302
Unrestricted investments:		
Investments	16,483,872	14,972,461
Other	10,000	10,000
Total investments and assets limited as to use	16,945,661	15,536,763
Less current portion for short-term investments	15,173,952	11,359,202
Total long-term investments and assets limited as to use	$ 1,771,709	$ 4,177,561

Note 6 - Capital Assets

Capital asset activity for the years ended June 30, 2005 and 2004 was as follows:

	June 30, 2005					
	July 1, 2004	Additions	Retirements	Transfers to (from)	June 30, 2005	Depreciable Life - Years
Land	$ 91,192	$ -	$ -	$ -	$ 91,192	-
Land improvements	788,619	-	-	-	788,619	10-20
Building and improvements	20,134,127	233,350	-	78,933	20,446,410	10-40
Equipment and furnishings	19,327,470	1,019,316	299,864	376,549	20,423,471	3-20
Construction in progress	231,858	446,678	-	(455,482)	223,054	
Total	40,573,266	1,699,344	299,864	-	41,972,746	
Less accumulated depreciation:						
Land improvements	473,708	88,432	-	-	562,140	
Building and improvements	5,211,916	1,078,883	-	-	6,290,799	
Equipment and furnishings	12,947,256	1,647,088	270,302	-	14,324,042	
Total	18,632,880	2,814,403	270,302	-	21,176,981	
Net carrying amount	$ 21,940,386	$ (1,115,059)	$ 29,562	$ -	$ 20,795,765	

	June 30, 2004					
	July 1, 2003	Additions	Retirements	Transfers to (from)	June 30, 2004	Depreciable Life - Years
Land	$ 91,192	$ -	$ -	$ -	$ 91,192	-
Land improvements	755,464	-	-	33,155	788,619	10-20
Building and improvements	18,449,191	172,397	-	1,512,539	20,134,127	10-40
Equipment and furnishings	18,147,072	1,073,021	128,413	235,790	19,327,470	3-20
Construction in progress	803,307	1,210,035	-	(1,781,484)	231,858	
Total	38,246,226	2,455,453	128,413	-	40,573,266	
Less accumulated depreciation:						
Land improvements	432,640	41,068	-	-	473,708	
Building and improvements	4,183,174	1,028,742	-	-	5,211,916	
Equipment and furnishings	11,490,960	1,522,211	65,915	-	12,947,256	
Total	16,106,774	2,592,021	65,915	-	18,632,880	
Net carrying amount	$ 22,139,452	$ (136,568)	$ 62,498	$ -	$ 21,940,386	

Note 7 - Long-term Debt

Long-term debt for the years ended June 30, 2005 and 2004 was as follows:

	July 1, 2004	Current Year Additions	Current Year Reductions	June 30, 2005	Current Portion
Bonds payable - 2001 Series	$ 11,340,000	$ -	$ 405,000	$ 10,935,000	$ 425,000

	July 1, 2003	Current Year Additions	Current Year Reductions	June 30, 2004	Current Portion
Bonds payable - 2001 Series	$ 11,725,000	$ -	$ 385,000	$ 11,340,000	$ 405,000

Long-term debt consists of Adjustable Rate Demand Bonds, Series 2001 issued by the Center. These bonds mature on April 1, 2022 and have a variable interest rate established on a weekly basis. The effective interest rate was 2.38 percent and 1.18 percent at June 30, 2005 and 2004, respectively. The bonds require annual payments ranging from $425,000 to $920,000 through April 1, 2022.

The bonds are secured by an irrevocable direct-pay letter of credit which expires in October 2007. The bonds are subject to mandatory redemption upon the expiration or termination of the letter of credit unless the existing letter of credit has been extended or an alternate letter of credit has been issued.

The variable rate Series 2001 Bonds described above are remarketed on a weekly basis. Should the remarketing agent be unable to remarket the bonds and notes based on its best efforts, the bonds and notes would be "put" back to the trustee, who would draw down on the letter of credit to pay down the Series 2001 Bonds.

In conjunction with the issuance of the irrevocable direct-pay letter of credit and related agreements, the Hospital has agreed to certain quarterly and annual reporting requirements, certain financial covenants, and various other operational covenants.

Note 7 - Long-term Debt (Continued)

A schedule of the principal and estimated interest payments on long-term debt at June 30, 2005 is as follows:

	Bonds Payable	Estimated Interest at Effective Rate of 2.38 Percent at June 30, 2005
2006	$ 425,000	$ 257,724
2007	445,000	247,490
2008	470,000	236,751
2009	490,000	225,446
2010	515,000	213,635
2011-2015	2,985,000	842,550
2016-2020	3,805,000	454,729
2021-2022	1,800,000	52,835
Total payments	$ 10,935,000	$ 2,531,160

Note 8 - Interest Rate Swap Agreement

During the year ended June 30, 2003, the Center entered into an interest rate swap of its Adjustable Rate Demand Health Facilities Revenue Bonds in notation amounts as detailed in the table below to reduce the impact of changes in the interest rate on its variable rate long-term debt. The swap agreement matures in November 2007. The effect of the swap was to effectively change the Center's variable interest rate on bonds to a synthetic fixed rate of 2.935 percent. Due to increasing interest rates, at June 30, 2005 and 2004, the swap had a positive fair value of approximately $3,000 and $60,000, respectively. Since the fair value of the swap was positive, the Center is exposed to credit risk in the amount of the interest rate swap's fair value. The swap's counterparty is rated AA3 by Moody's, A+ by Standard and Poor's, and AA- by Fitch. The Center or counterparty may terminate the interest rate swap agreement if either party fails to perform under the terms of a standard ISDA Master Agreement as amended. If terminated, the Center has the option to enter into a new interest rate swap agreement with another counterparty or to convert their variable rate bonds into fixed rate bonds. However, the Center does not anticipate nonperformance by the counterparties.

Note 8 - Interest Rate Swap Agreement (Continued)

The notational amounts for each year, which the fixed rate will apply under the interest rate swap agreement, are as follows:

	Notational Amounts
Effective date	$6,000,000
April 1, 2004	5,622,500
April 1, 2005	5,420,000
April 1, 2006	5,207,000
April 1, 2007	4,985,000

Note 9 - Accrued Liabilities

The details of accrued liabilities are as follows:

	2005	2004
Payroll and related amounts	$ 857,263	$ 776,512
Pension (Note 10)	440,084	440,059
Compensated absences	1,376,955	1,265,451
Professional liability claims (Note 11)	371,515	302,898
Other	30,837	19,548
Total accrued liabilities	$ 3,076,654	$ 2,804,468

Compensated absences represent the estimated liability to be paid to employees under the Center's sick and vacation policy. Under the Center's policy, employees earn sick and vacation time based on length of service with the Center.

Note 10 - Pension

The Center provides benefits through four participant-directed defined contribution plans to substantially all employees who accumulate at least 1,000 hours of service per year. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Generally, employees are eligible to participate after one year of service and the attainment of age 21. The Center's contributions for each employee plus net investment income and interest allocated to each employee's account are fully vested in periods ranging from 5 years to 10 years of continuous service. Center contributions for, and interest forfeited by, employees who leave employment prior to being fully vested are used to reduce the Center's current-period contribution requirement. Pension expense, net of forfeitures, to the plans for the years ended June 30, 2005 and 2004 totaled approximately $776,000 and $726,000, respectively.

Note 11 - Risk Management

The Center is exposed to various risks of loss related to property loss, torts, professional liability, errors and omissions, and employee injuries, as well as medical benefits provided to employees. The Hospital has purchased commercial insurance for the various risks described above.

The Center is insured against potential professional and general liability claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Center must pay a deductible toward the costs of litigation or settling any asserted claims. In addition, the Center bears the risk of the ultimate costs of any individual claim exceeding the policy limits for claims asserted in the policy year. At June 30, 2005 and 2004, the Center has made a provision for the estimated loss in connection with those professional liability claims for incidents occurring during the year for which an amount can be reasonably estimated, including a provision for claims incurred but not reported at year end.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the claims-made term, but reported subsequently, will be uninsured.

Note 12 - Physician Guarantees

The Center has entered into guarantees with several nonemployee physicians. These agreements are two years in duration and guarantee a minimum amount of income for each individual physician. For fiscal year 2006, the Center has guaranteed minimum income payments of approximately $1,800,000. The Center estimates that total practice support payments will approximate $1,600,000 in 2006.

Note 13 - Net Patient Service Revenue

The details of net patient service revenue are as follows:

	2005	2004
Patient revenue:		
Inpatient	$ 20,252,731	$ 18,200,800
Outpatient	41,174,942	33,390,641
Total patient revenue	61,427,673	51,591,441
Revenue deductions:		
Provision for third-party payors	26,575,449	19,120,521
Provision for uncollectible accounts	1,563,015	1,116,621
Total revenue deductions	28,138,464	20,237,142
Net patient service revenue	$ 33,289,209	$ 31,354,299

Note 14 - Nonoperating Income and Expenses

The details of nonoperating income and expenses are as follows:

	2005	2004
Interest income	$ 453,151	$ 368,644
Net unrealized and realized gains (losses) on investments	12,307	(215,621)
Interest expense	(280,760)	(239,695)
Restricted contributions	20,572	50,100
Restricted investment income	908	287
Total	$ 206,178	$ (36,285)

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September 15, 2005

To the Board of Trustees
West Shore Medical Center

The healthcare industry continues in a period of rapid change, in terms of medical advances, capital requirements, and changes in providing cost-effective, high quality healthcare services. Our knowledge of the healthcare industry is continually expanding to reflect this changing environment. This knowledge provides the Center with both the vision and tools to be successful.

Our goal is to provide resources, recommendations, and knowledge to be successful in today's healthcare environment. Through our recent audit, and our participation in various healthcare provider associations, we are providing the following reports to assist you in deepening your knowledge base of items that may affect the Center in the near future:

I. Observations, Comments, and Recommendations
II. Plante & Moran Regulatory Heartbeat
III. Required Communication to Board of Trustees

As required by auditing standards generally accepted in the United States of America, the independent auditor is required to make several communications to the "audit committee" or a governing body having oversight responsibility for the audit. The purpose of this report letter is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Thank you for the opportunity to be of service to the Center. Should you wish to discuss any of the items included in this report, we would be happy to do so.

Sincerely,

PLANTE & MORAN, PLLC

Kevin E. Krause, CPA
Partner

plante moran

Observations, Comments, and Recommendations

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To the Board of Trustees
West Shore Medical Center

In planning and performing our audit of the financial statements of West Shore Medical Center for the year ended June 30, 2005, we considered the Center's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. In reviewing the Center's processes and systems, we made a few observations that we feel should be communicated to you. We have also summarized additional areas for Board consideration.

All items are presented for your consideration on attachments as outlined below:

Title	Exhibit
Accounts Receivable	A
GASB 40 – Deposit and Investment Risk Disclosures	B
Upcoming Accounting Pronouncement – GASB #42	C
HIPAA/Corporate Compliance	D
Audit Committee – Roles and Responsibilities	E

Thank you for the opportunity to be of service to the Center. Should you wish to discuss any of the items included in this report, we would be happy to do so.

Plante & Moran, PLLC

September 15, 2005

Exhibit A
Accounts Receivable

We noted the following items that we feel should be brought to your attention as it relates to patient accounts receivable:

- The average collection period for outstanding accounts receivable decreased from 44 days in 2004 to 41 days in 2005. This still compares very favorably to the Center's peers in the state.

- Total private pay accounts receivable balances have increased quite significantly over the past couple of years, totaling approximately $1.6 million in 2005 compared to a balance of approximately $600,000 in 2002. During 2005, much of this increase was due to Medicaid no longer reimbursing certain inpatient stays and the Center reclassifying these amounts into private pay accounts receivable. As these receivables reach 180 days, they are being reviewed and appropriately written-off. This has affected the aging by decreasing the amounts over 180 days. In addition, the allowance for uncollectible accounts has decreased somewhat over the past two years. At June 30, 2005, the allowance totaled 40 percent of self-pay accounts receivable balances, as compared to 46 percent in 2004. Due to the change in Medicaid reimbursement and with the continued increase of deductibles and co-insurance amounts being passed onto employees by employers, we highly recommend the Center closely monitor self-pay balances and more importantly, emphasize the collection of deductibles and co-insurance at time of service.

Exhibit B
GASB #40 – Deposit and Investment Risk Disclosures

The Governmental Accounting Standards Board (GASB) recently issued GASB Statement #40 - Deposit and Investment Risk Disclosures, which is effective for all financial statement periods beginning after June 15, 2004. The Center has adopted this Statement for the year ended June 30, 2005. The deposits and investments of governmental entities are exposed to inherent risks that have the potential to result in losses. This Statement is designed to inform financial statement users about deposit and investment risks that could affect the entity's ability to provide services and meet its obligations as they become due. It requires expanded disclosures in the financial statements on these risks including the entity's policies for addressing the risks.

The five common deposit and investment risks addressed in this Statement are defined as follows:

Custodial Credit Risk - The risk that in the event of a failure of a depository financial institution, the entity will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Interest Rate Risk - The risk that changes in interest rates will adversely affect the fair value of an investment or deposit.

Credit Risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of Credit Risk - The risk of loss attributed to the magnitude of the entity's investment in a single issuer.

Foreign Currency Risk - The risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

West Shore Medical Center principally holds cash and deposits, which are subject to custodial credit risk. The Center also holds a sweep account, which is subject to custodial credit risk, interest rate risk, and credit risk. We encourage the Center to review its investment policies to assess and address any applicable risks.

Exhibit C
Upcoming Accounting Pronouncement – GASB #42

GASB Statement #42, Impairment of Capital Assets, will be effective for the Center for the year ended June 30, 2006. GASB 42 outlines the requirements for recognizing an impaired asset in the financial statements and addresses the accounting for any related insurance proceeds. Capital assets are considered to be impaired when the service utility has declined significantly and unexpectedly. We encourage the Center to evaluate its recorded capital assets for impairment and evaluate the impact of potential asset write-downs that may be required under the new pronouncement. We encourage management to pay particular attention to idle buildings and equipment that are no longer used for business purposes by the Center.

Exhibit D
HIPAA/Corporate Compliance

We have identified the following areas that the Center should make a priority in the future:

- **Information Technology**

  In the upcoming year, the Center is considering upgrading their current or purchasing a new information technology system. While the Center will need to assess how the system will integrate multiple IT functions and system support, the Center should also assess the disaster recovery plan already in place and how it will integrate into the new system.

- **Chargemaster Review**

  The Center has not conducted a detailed chargemaster review performed by a third-party for a number of years, except for an ongoing APC review started in 2003. Due to the large number of changes in charge codes, due to changes resulting from APC's and DRG's, it is important that the Center's chargemaster be maintained with current allowable codes to avoid potential corporate compliance deficiencies. An external review of the Center's chargemaster would facilitate the effort to ensure current charge codes are in effect. We recommend the Center contract for an external review of its chargemaster.

Exhibit E
Audit Committee – Roles and Responsibilities

Purpose

The Audit Committee shall be responsible for providing oversight assistance to the Board of Trustees in fulfilling their responsibility relating to corporate accounting, corporate reporting practices, a reliable system of internal controls, corporate responsibility, and the quality and integrity of financial reports of West Shore Medical Center. In so doing, it is the responsibility of the Audit Committee to maintain free and open communications between the Board of Trustees, the independent auditors, the internal auditors, and the senior management of West Shore Medical Center.

Qualification of Members

- The Audit Committee shall be comprised of members who are independent of West Shore Medical Center and its management. Members of the Audit Committee shall be considered independent if they have no relationship that may interfere with the exercise of their independence from West Shore Medical Center and its management.
- Audit Committee members will be financially literate, and at least one member will have accounting or related financial management expertise.

Authority and Responsibilities

In carrying out its oversight responsibilities, the Audit Committee procedures should remain flexible in order to best react to changing conditions and assure the Board of Trustees that the corporate accounting, reporting and internal control practices, and the Corporate Responsibility Program of West Shore Medical Center, are in accordance with all requirements and are of the highest quality.

In carrying out these responsibilities, the Audit Committee will:

- Obtain the Board of Trustees' approval of this Charter and Review and reassess this Charter as conditions dictate.
- Meet with senior management of West Shore Medical Center to review the scope of the proposed audit for the current year, and at the conclusion thereof, review such audit, including any comments or recommendations of the independent auditors.

Exhibit E
Audit Committee – Roles and Responsibilities (Continued)

Authority and Responsibilities (Continued)

- Review the adequacy and effectiveness of the accounting and financial controls of West Shore Medical Center with the independent auditors, internal auditors, financial and accounting personnel, and elicit any recommendations for the improvement of the system of internal controls or particular areas where new or more detailed controls or procedures are desirable. Particular emphasis should be given to the adequacy of the system of internal controls or particular areas where new or more detailed controls or procedures are desirable. Particular emphasis should be given to the adequacy of the system of internal controls to expose payments, transactions, or procedures that might be deemed illegal or otherwise improper.
- Review the Corporate Responsibility Program and the reports of its activities. Review reports received from regulatory bodies and other legal and regulatory matters that may have a significant effect on West Shore Medical Center's corporate responsibility policies.
- Review the Center's proposed internal audit plan for the coming year, and the coordination of such plan with the independent auditors. Receive and approve the completed internal audit reports and a progress report on the proposed internal audit plan, with explanations for any deviations from the original plan. Review results of action plan follow-ups from completed audit reports.
- Inquire of management, the internal auditor, and the independent auditors about significant risks or exposures and assess the steps management has taken to minimize such risks to West Shore Medical Center.
- Review the annual audited financial statements with senior management and the independent auditors to determine that the independent auditors are satisfied with the disclosure and content of the financial statements. Review with the senior management and the independent auditors the results of their timely analysis of significant financial reporting issues and practices, including changes in, or adoptions of, accounting principles and disclosure practices, and discuss any other matters required to be communicated to the Audit Committee by the auditors. Also review with the senior management and the independent auditors their judgments about the quality, not just acceptability, of accounting principles and the clarity of the financial disclosure practices used or proposed to be used, and particularly, the degree of aggressiveness or conservatism of the Center's accounting principles and underlying estimates, and other significant decisions made in preparing the financial statements.
- Provide sufficient opportunity for the internal auditors or independent auditors to meet with the members of the Audit Committee without members of senior management present. Among the items to be discussed in this meeting are the independent auditors' evaluation of West Shore Medical Center's financial, accounting, and internal auditing personnel, and the cooperation that the independent auditors received during the course of the audit.

Exhibit E
Audit Committee – Roles and Responsibilities (Continued)

Authority and Responsibilities (Continued)

- Report the results of the annual audit to the Board of Trustees. If desired by the Board of Trustees, invite the independent auditors to attend a Board of Trustees meeting to assist in reporting the results of the annual audit or to answer questions.
- Complete an annual self-assessment and review results with Board of Trustees.

Committee Procedures

- Audit Committee members and the Audit Committee Chair are appointed by the Board of Trustees. The Audit Committee Chair will be a member of the Board of Trustees. Audit Committee members are re-appointed each year, as appropriate. There will be a minimum of five members on the Audit Committee.
- The Audit Committee will meet a minimum of three times per year. Audit Committee members must attend more than one-half of the meetings per year.
- The West Shore Medical Center Director of Compliance will act as staff to the Audit Committee, and have responsibility for preparing the agenda and meeting materials. The West Shore Medical Center Chief Financial Officer will also serve as staff. Audit Committee meeting minutes will be delivered to Audit Committee members and a report delivered to the Board of Trustees.

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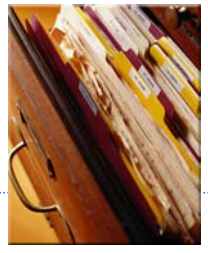
Regulatory Heartbeat



Plante & Moran Regulatory Heartbeat

Reimbursement Update

Medicare Reimbursement – Final Inpatient Ruling Federal Fiscal Year End September 2006

- Payment increase will average 3.7% (full market basket) for hospitals providing quality data when all changes in the proposed rule are considered
- Establishes new DRG's and makes changes to the designation of diagnosis and procedure codes of others
- Medicare will be expanding the DRG's subject to post-acute care transfer policy from the current 30 to 182, resulting in savings to the Medicare program of approximately $780 Million
- Re-issues Medicare policies regarding provider-based status of facilities and organizations and provides clarifying language to current regulations in this area

Medicare Reimbursement – Proposed Physician Ruling For Calendar Year 2006

- Reduction of the payment rate per service by 4.3%, as required by the statutory formula, that takes into account growth in overall Medicare spending
- Revisions to a number of other policies affecting Medicare Part B payments including the following:
    - Change drug add-on adjustment established to account for difference between previous payments and the revised pricing that took effect January 1, 2005
    - Revision for payments of drugs and biologicals furnished by End Stage Renal Disease facilities
    - Addresses fee amounts for inhalation drugs provided using nebulizers

Medicare Reimbursement - Final Physician Ruling For Calendar Year 2005

- Payment increase of 1.5 percent
- CMS projects total 2005 spending for the approximately 850,000 healthcare professionals will increase 4 percent to $55 Billion
- Other proposed changes include:
    - 5 percent incentive payments to physicians practicing in "physician scarcity areas" and 10 percent incentive for those practicing in "health professional shortage areas"
    - Initial physical for all new beneficiaries
    - New coverage of cardiovascular screening blood tests
    - Diabetes screening tests to at-risk beneficiaries
    - Increased payments for administering influenza vaccine

Reimbursement Update (Continued)

Medicare Outpatient Reimbursement – Final Rule Effective for Services January 1, 2005

- To increase 3.3 percent
- Payments for physicals to new beneficiaries
- Significant payment increases to diagnostic mammograms
- Continuation of "hold-harmless" provisions to small rural providers with less than 100 beds as a result of the implementation of APC reimbursement methodology

Medicare Outpatient Reimbursement – Proposed Rule Effective for Services January 1, 2006

- Average increase of 3.2%, however, depending on hospital classification, rate changes range from (2.1%) to 6.4%
- Sole community providers in rural areas would see an increase of 6.6% as authorized in the Medicare Modernization Act of 2003 (MMA)
- Continued the programs support for preventive type services with increases to payment rates associated with these services
- Continue the gradual decrease on coinsurance rates to all services having a coinsurance rate of 20% of the total payment
- CMS has identified 11 families of imaging procedures which they are proposing changes in payment methodologies. When two or more procedures in the same family are performed, the 1st procedure would be paid in full and a discount of 50% would be applied to subsequent procedures
- Payments are proposed for most Part B drugs, biologicals, and radiopharmaceuticals administered in a hospital outpatient department at competitive market prices, which is defined as 106% of the manufacturer's average sales price

Reimbursement Update (Continued)

Medicaid News

State Medicaid Funding Issues

State Medicaid spending is expected to grow by 12.1% in fiscal year 2005, in part by expiring federal relief, and by 8-9% longer term, well above anticipated state revenue growth, per report issued recently by the National Governors Association and National Association of State Budget Directors. No updates were recommended for skilled nursing facilities and home health agencies.

Michigan Medicaid

Proposed 2006 Budget Considerations Impacting Medicaid Reimbursement

- Hospital inpatient and outpatient payments would be decreased 4% via lump-sum payment for 2005, with actual rate reductions in 2006. Physicians would see similar reductions
- Medicaid MHO rates would decrease 4% in 2006

Medicaid in Michigan Facts

- Michigan has 1.7 million Medicaid eligible residents or nearly 1 of every 7 Michigan residents
- Cases have increased by 30% since 2000, in part because the sluggish economy has made more individuals eligible
- State spending has increased 1.5% over a four-year period, however, the Department of Community Health spending has climbed 30.6%

Office of Inspector General News

Compliance with Medicare Transfer Policies

Recently the OIG sampled 400 inpatient Medicare claims and found 381 were not properly coded as discharges to home rather than transfers to post-acute care. The OIG noted the reasoning behind these errors were a result of hospitals lacking appropriate controls to ensure the accuracy of the discharge status and the lack of the CMS payment system having appropriate edits in place to identify overpayments in this area.

Highlights of OIG's 2005 Work Plan

The following items have been highlighted in OIG's 2005 Work Plan:

- Inpatient rehabilitation payments, particularly late patient assessments
- Medical necessity of inpatient psychiatric stays
- Rebates paid to hospitals
- Coronary artery stents
- Diagnosis-related group coding
- Quality improvement organization mediation of beneficiary complaints
- Medical education payment for dental and podiatry residents
- Nursing and allied health education payments
- Graduate medical education voluntary supervision in non-hospital settings
- Compliance program guidance to the health care industry

Upcoming OIG Initiatives

- Issue guidance to hospitals on effective corporate compliance plans
- Review medical necessity documentation, specifically invasive procedures
- Continued focus on upcoding and outlier payments
- Will target schemes proffered by consultants to increase revenue
- Work to reduce payment for outpatient surgery performed in a hospital setting to the same Medicare reimbursement paid at ambulatory surgery centers...could save Medicare $1.0 Billion

Other OIG News

OIG Finds Weaknesses in Bad Debt Reporting – Recent audits completed by OIG reveal problems in bad debt management and reporting. Many bad debts claimed did not comply with Medicare reimbursement criteria, did not receive same collection efforts as other non-Medicare bad debts, and had lack of documentation to support indigency determinations

Tax Developments

Not-For-Profit Compensation Practice Update – October 2004

As part of its current compensation audit initiatives, the IRS has stated that it intends to address questionable compensation packages and practices, increase awareness of tax issues as organizations set compensation going forward, and learn more about the practices organizations are following as they set compensation and report it to the IRS and the public on their annual Form 990, Return of Organization Exempt from Income Tax.

IRS representatives have stated that the current audit initiatives would focus on particular areas, including the compensation of specific officers and various kinds of insider transactions, such as loans and the sale, exchange, or leasing of property to officers and others. It said it would focus on Form 990 reporting, including how organizations answered Question 89(b) on their Form 990 (excess benefit transactions and other compensation information).

The IRS will undertake a three-level approach to working with exempt organizations to make sure it has all the information needed to assess the appropriateness of compensation arrangements. The first level involves educational letters which require no response. These letters will be distributed to nonprofit groups to inform them about applicable requirements.

The second level is a compliance check letter. According to the IRS, these letters will be sent when the IRS notes that information in specific 990s is missing or where it appears that the information is inconsistent with information provided in these forms by similarly situated entities in a given sector. These letters will carry a "respond or else message."

Finally, the Service will send out examination letters in certain cases where it asks for specific information covering specific years in order to ascertain whether a given compensation deal, or series thereof, are appropriate. This is essentially an office audit with limited scope.

Top 10 Not For Profit Tax Issues

Source: AICPA 2004 National Healthcare Conference

1. IRS Initiatives and Tax-Exempt Status
2. Intermediate Sanctions
3. Governance and Sarbanes-Oxley Act
4. Tax Shelter/Disclosure Rules
5. Joint Ventures
6. Accounting Methods
7. Compensation
8. Hospital/Physician Relationships
9. Form 990 Compliance And Disclosure
10. Medical Resident FICA

HIPAA Update

"HIPAA: it's not just the law....it's an adventure?"

The Continuing HIPAA Imperative

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) was passed by Congress to reform the insurance market and simplify healthcare administrative processes. The administrative simplification portion of HIPAA is aimed at reducing administrative costs and burdens in the industry by adopting and requiring the use of standardized electronic transmission of administrative and financial data. Currently, 26 cents of each healthcare dollar is spent on administrative overhead. The use of electronic data interchange (EDI) in a standard format between partners will allow transactions to occur in a more expedient and cost-effective manner. This Transaction and Code Sets segment of HIPAA spells out the rules governing these transactions. In addition, several Identifier Rules have been added to further enhance the effectiveness of these tranactions.

HIPAA also addresses Security of the information that is transmitted. Standards have been developed for all health plans, clearinghouses, and providers ("covered entities") to follow regarding the transmission and storage of all health information to ensure integrity, availability, and confidentiality of the records in all phases of the transaction.

As well, Privacy standards have also been developed under the auspices of HIPAA. These standards explicitly define what are appropriate and inappropriate disclosures of protected health information (PHI). The HIPAA Privacy Standards are the new mandates industry-wide for the definition of privacy in healthcare.

Effective Dates

HIPAA Administrative Simplification Rules	Compliance Date*
Privacy	April 14, 2003
Transactions and Code Sets	October 16, 2003
National Employer Identifier	July 30, 2004
Security	April 21, 2005
National Provider Identifier	May 23, 2007
*Note: all compliance dates are extended by one year for small health plans with the exception of the compliance date for Transactions and Code Sets	

HIPAA Update (Continued)

HIPAA Enforcement Procedures

On April 18, 2005, the Department of Health and Human Services published a Notice of Proposed Rulemaking which proposes the bases and procedures for imposing civil money penalties on covered entities that violate any of the HIPAA Administrative Simplification Rules. Comments are due by 60 days from the publication date. This rule deals with the enforcement of the Privacy regulations by the Office of Civil Rights (OCR) as well as the enforcement of the remainder of HIPAA by the Centers for Medicare and Medicaid (CMS). Both OCR and CMS intend to promote voluntary compliance through technical assistance and guidance with the rules. The enforcement process will be complaint-driven. Regarding the Privacy Rule, OCR will attempt to resolve matters by informal means before issuing findings of non-compliance. This process will consist of progressive steps that will provide opportunities to demonstrate compliance or submit a corrective action plan. A Civil Money Penalty (CMP) may be assessed by OCR to a covered entity should these compliance steps fail. For transactions, CMS will focus on obtaining voluntary compliance and use a complaint-driven approach for enforcement of HIPAA's electronic transactions and code sets provisions. When CMS receives a complaint about a covered entity, it will notify the entity in writing that a complaint has been filed. Following notification from CMS, the entity will have the opportunity to 1) demonstrate compliance, 2) document its good faith efforts to comply with the standards, and/or 3) submit a corrective action plan.

Disaster Recovery and Business Continuity Planning

Considered by many healthcare organizations as important but often lacking, disaster recovery and business continuity planning is a required element of the final Security rule. Imagine the consequences on your Organization if the information systems are inoperable due to fire, flood, terrorism, natural disaster, or cyber-related security incidents. Many covered entities have re-considered their preparedness to disruptions in information systems. Lack of timely recovery does not only disrupt services, but can also affect the ability to generate revenue, serve patients/residents/clients, and can potentially cause irrecoverable damage to reputation and competitive advantage. Best practices dictate management should review their current preparedness and update their disaster recovery and/or business continuity plans on a regular basis.

National Provider Identifier

CMS announced a system whereby all health care providers, including Medicare providers, can apply for a new identifier, known as the National Provider Identifier, or NPI, starting May 23, 2005. Eventually, all providers must use the NPI in all transactions covered in the Transactions and Code Sets Rule. Providers may apply for an NPI via the web at https://nppes.cms.hhs.gov or via paper application.

Other Healthcare News

The Bankruptcy Abuse Prevention and Consumers Protections Act of 2005

This act signed by the President on April 20, 2005, with an implementation date of October 17, 2005, will have some broad implications for hospital collection policies, agreements with third-party collection agencies, and contractual arrangements with other business partners. Healthcare providers should carefully review the new law and review current collection policies and contractual arrangements in place to ensure compliance.

Hospital Finances Appear Much Better In 2004 Source: Moody's Investor Services

A preliminary analysis of not-for-profit hospitals audited financial statements for fiscal 2004 showed a significant improvement in median margin, utilization, and debt-service ratio when compared with fiscal 2003. The preliminary analysis covered 233 stand-alone hospitals and single-state health systems representing about 42% of the portfolio of hospital debt rated by Moody's. The median operating margin for the hospitals and systems was 2.1%, up from 1.1% in fiscal 2003. Median operating expenses grew 8.15% but the growth in median operating revenue was higher, 8.83%. Admissions, patient days, emergency visits, and overall outpatient visits showed year-over-year increases ranging from 1.78% to 2.51%. The number of outpatient surgeries was flat. Although median total debt increased, the median balance sheet improved enough to yield better debt-service ratios.

Medical Costs Exceed $12,000 for the Typical Family

According to the Milliman's Annual Medical Index recently released, medical costs paid by a typical American family of four, with insurance benefits provided by a Preferred Provider Organization, were estimated at $12,214 for 2005. Of the total costs, inpatient and outpatient services represented 45%, followed by physicians at 37%, and prescriptions and other costs at 18%.

Uncompensated Care Costs on the Rise

According to the latest American Hospital Association Annual Survey of Hospitals, Michigan hospitals provided $1 BILLION in uncompensated care in 2003, an increase of $63 million. This amount represents the cost of providing charity care and bad debts. Since 1998, the amount of uncompensated care has increased $391 million or 59%.

Other Healthcare News (Continued)

Cost of the Uninsured

As reported by Kaiser Commission on Medicaid and the Uninsured, Urban Institute analysis of the March 2003 current population survey:

- 11.7% of Michigan residents were uninsured in 2002
- Average uninsured received $1,253 in care in 2001
- $98.9 BILLION of care was provided to the uninsured in 2001
- Of the $98.9 BILLION, $34.5 BILLION was never paid for

Policy Changes to Address Significant Growth in Uninsured

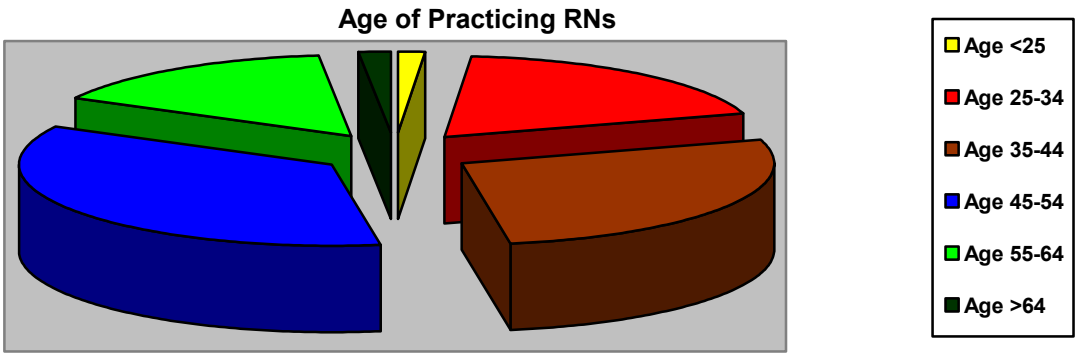
Consensus is building at the federal level recognizing that policy changes must be implemented to address the alarming growth of the uninsured. The American Hospital Association vision of a future health care system includes the following 10 characteristics:

- Provide affordable coverage for everyone's basic health care needs
- Provide care equitably to all
- Be based on the premise that health care is a shared responsibility
- Demand better stewardship of limited resources
- Be sufficiently financed to meet long-term responsibilities
- Emphasize wellness and center on preventive and primary care
- Deliver high-quality, evidence-based care
- Be structured to provide more coordinated continuity of care
- Be simple and easy to understand and navigate
- Be transparent in sharing information with consumers and clinicians

Other Healthcare News (Continued)

Nursing Pool Staffing Challenges – Data from the Michigan Center for Nursing outlines a threefold problem facing the healthcare industry as detailed below:

1. Significant aging of nurses will cause a significant increase in retirements over the next decade as detailed in chart below
2. Instructors to teach nursing students are not available. Only 4.7% and 1.8% of Michigan RNs and LPNs, respectively, work in education and nursing schools
3. The overall nationwide shortage has caused some nurses to leave the profession because they are working longer hours under more stress

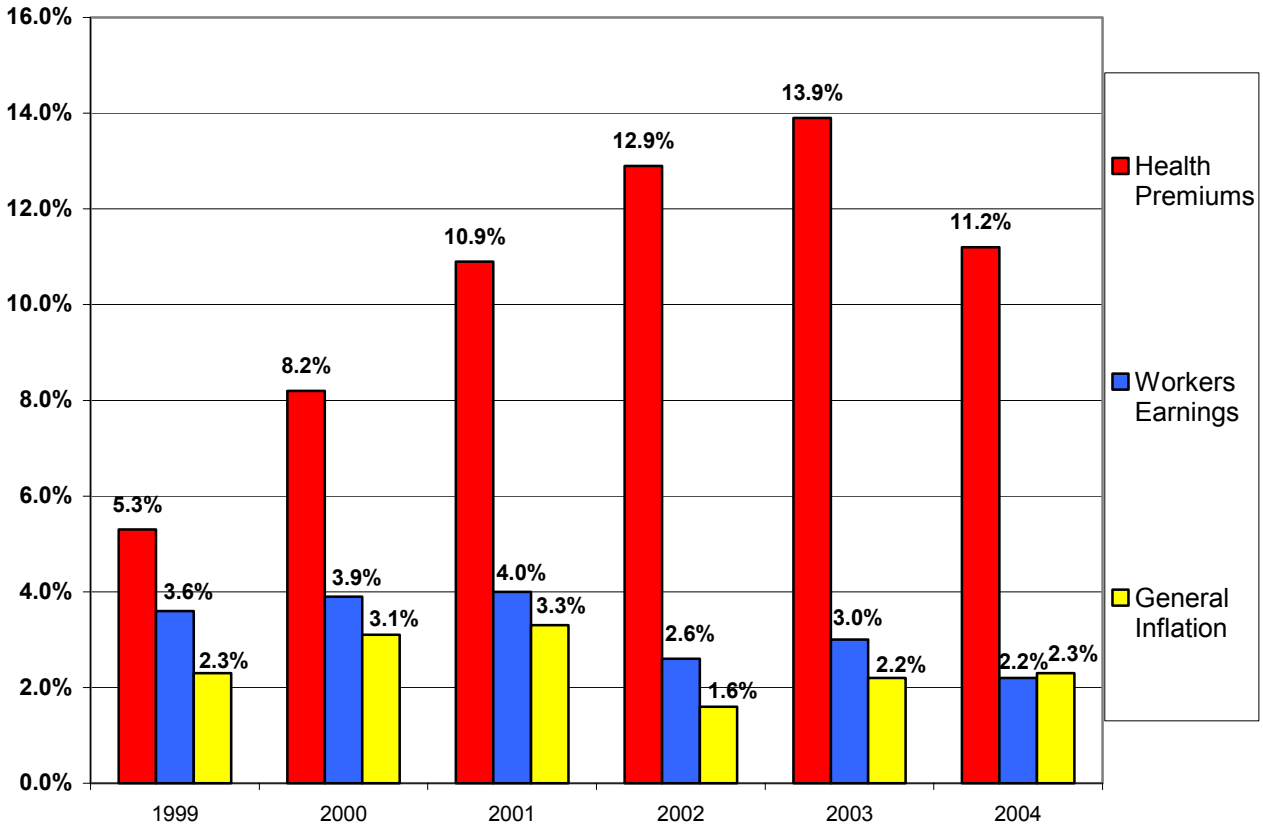


Source Michigan Center for Nursing Survey of Nurses, 2004

Other Healthcare News (Continued)

Healthcare Costs Increases

Below is a comparison of increases in healthcare costs as compared to inflation and increases in wages:



Source: KFF/HRET Survey of Employer-Sponsored Health Benefits

plante moran

Required Communication to the Board of Trustees

plante moran

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To the Board of Trustees
West Shore Medical Center

We have recently completed our audit of the financial statements of West Shore Medical Center for the year ended June 30, 2005. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the Audit Committee, Board of Trustees and others within the Organization.

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

We conducted our audit of the financial statements of West Shore Medical Center in accordance with auditing standards generally accepted in the United States of America. The following paragraphs explain our responsibilities under those standards:

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help ensure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America (Continued)

An independent auditor's objective in an audit is to obtain sufficient competent, evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or irregularities. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

Significant Accounting Policies

Auditing standards call for us to inform you regarding the initial selection of, and changes in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. The significant accounting policies are described in Note 1 to the financial statements. There were no significant unusual transactions or controversial or significant emerging areas for which new accounting policies were needed.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Auditing standards call for us to report to you on accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments. Further, we are expected to report to you covering the process used by management in formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates. In this connection, we are reporting the following matters:

Management Judgments and Accounting Estimates (Continued)

As described in the notes to the financial statements, a significant portion of the Center's net patient revenue is received from Medicare, Medicaid, Blue Cross Blue Shield of Michigan, and various HMO programs. These programs pay the Center less than full charges for the services rendered to patients. Management has estimated the amount of loss resulting from these program's payment methods based on cost report models for the year and other anticipated disallowances and adjustments. Our conclusions regarding the reasonableness of those estimates are based on reviewing the cost report model and related documents, historical information related to these accounts, and settlements with these third parties during and after the end of the year.

Management has also estimated bad debt expense for the year, as well as the related allowance for uncollectible accounts. These estimates are based on percentage of patient revenue and review of accounts receivable aging categories. The percentages used are based on prior experience. Our conclusions regarding the reasonableness of these estimates are based on reviewing historical trends, on testing collectibility of large accounts, and on testing management's computations.

Management has also estimated the ultimate expense, including litigation and settlement expense, for incidents, which may result in malpractice claims occurring during the year, as well as the estimate of those claims, which have not been reported at year end. This estimate is based on conclusions reached by in-house risk manager, legal counsel, discussions with the Center's insurance carrier, and on historical outcomes of previous cases in the Center's geographic area. Our conclusions regarding the reasonableness of this estimate are based on discussions with management, the risk manager, confirmation of outstanding and open cases with the insurance carrier, and communication with outside counsel.

Significant Audit Adjustments

Auditing standards call for us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed. There were no significant audit adjustments made during the June 30, 2005 audit of the financial statements of West Shore Medical Center.

Other Information in Documents Containing Audited Financial Statements

When our audit report and the audited financial statements are included in a client document, we have a responsibility to read that document and consider whether anything therein is inconsistent with the information in the audited financial statements. It is our understanding that the audited financial statements are currently not expected to be included in any other document.

To the Board of Trustees
West Shore Medical Center

Disagreements with Management

In the process of conducting an audit, various matters will be discussed with management. In that process, significant differences of opinion may arise regarding the scope of the audit, the application of accounting principles, disclosures to be included in the financial statements, or the wording of our report. In the interest of keeping you informed of all significant matters, such differences are required to be reported to you even though they are satisfactorily resolved. There were no disagreements with management over the application of accounting principles or the basis for management's judgments about accounting estimates. Additionally, there were no disagreements regarding the scope of the audit, disclosures to be included in the financial statements, or the wording of the auditor's report.

Consultation with Other Accountants

When management consults with other accountants about significant accounting and auditing matters, auditing standards require that we present our views on those matters to you. To our knowledge, there were no such consultations with other accountants.

We welcome any questions you may have regarding the foregoing comments, and we would be happy to discuss any of these or other questions that you might have at your convenience.

September 15, 2005